COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1446-01
Bill No.: HB 548
Subject: Law Enforcement Officers & Agencies; Retirement–Local Government; St. Louis
Type: Original
Date: February 27, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All State Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**($1,202,500)**	**($1,232,563)**	**($1,263,377)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Joint Committee on Public Employee Retirement** indicate that the proposal represents a "substantial proposed change" in future plan benefits as defined by Section 105.660(5). As such, an actuarial cost statement is required prior to action on the legislation by either legislative body or committee thereof.

The **Office of Administration** notes that the Police Retirement System of Saint Louis should determine the potential cost of the proposal.

Officials from the **Police Retirement System of Saint Louis (PRS–STL)** obtained an actuarial cost study for the proposed changes. Currently, the system is overfunded by $36.8 million. The provisions in the legislation are expected to cost $47.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $10.8 million. The actuarially required contribution as a result of the proposal would be 8.85% of pay, with 7% contributed by the employees, and the remaining 1.85% contributed by the city. The city does not have a set contribution, and makes contributions only when determined necessary by the annual actuarial valuation. The annual direct cost to the city, assuming a covered payroll of $65 million, is $1.2 million. **Oversight** has adjusted this amount for annual pay increases of 2.5%. Additionally, there is a long-term impact as a result of the proposal, as the elimination of the surplus and creation of the UAAL will contribute to the need for any future contribution increases.

Officials with the **City of Saint Louis (STL)** note that total cost of the provisions in the legislation are $47.6 million, and that the surplus of $36.8 million is expected to be eliminated and the UAAL of $10.8 million created. The city notes its annual cost has been estimated at $1.2 million. Additionally, the city suggests that this legislation represents an unfunded mandate which could possibly require an appropriation by the state.

Oversight notes that the system's board of trustees must approve any benefit changes before they may take effect.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
CITY OF SAINT LOUIS			
Costs–STL			
Increased Contributions	**($1,205,000)**	**($1,232,563)**	**($1,263,377)**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill revises the St. Louis City Police Deferred Retirement Option Plan (DROP). The bill:

(1) Reduces the number of years a member's average final compensation is based on from 3 years to one year. Final compensation is also further defined based on creditable service earned before, during, and after DROP participation. Voluntary contributions are excluded from accumulated contributions;

(2) Allows the Board of Trustees to appoint an attorney to serve as legal advisor and represent the system in all legal proceedings;

(3) Requires that past mandatory contributions be deposited in members' DROP accounts. Compensation earned during DROP participation will not be used to calculate retirement benefits. Service retirement allowances are frozen at the date the member enters DROP;

(4) Allows members participating in a DROP to make voluntary contributions of 7% of their salary to the DROP account;

(5) Allows a member who ceases participation in DROP to return to active participation in the system at the end of the five-- year DROP period or when they elect to return to active participation, whichever is earlier, but not later than October 1, 2001. Also, allows a member participating in DROP to re-- enter the system and to resume making mandatory contributions as of the day participation in the DROP ends or October 1, 2001, whichever is later;

(6) Requires mandatory contributions, other than those deposited in the member's DROP account, to be paid to the member within 60 days of the actual retirement. If a member dies prior to retirement, the member's mandatory contributions must be paid to the member's surviving spouse;

(7) Allows a member, receiving accidental disability, to receive the portion of the DROP account attributable to mandatory or voluntary contribution. The contributions will be distributed in a lump sum or equal monthly installments over a ten-year period;

DESCRIPTION (continued)

(8) Allows the board to establish procedures for the investment of member's DROP accounts. At the date investment options are made available, the value of each member's DROP account must be transferred to the DROP investment option selected by the member or the investment option designated by the board. The board is released from liability for changes to the member's account;

(9) Requires a member participating in DROP on August 12, 1999, who returns to active participation in the system and retires before earning at least 2 years of service, to receive an allowance of the member's benefit as of the date the member entered DROP and an additional benefit based on the service earned after returning to active participation. If a member has at least 2 years of service after returning, total years of service must be taken into account when determining the benefit;

(10) Increases compensation for special advisors and surviving spouses of special advisors from $10 to $20 per month times the number of years the retired member is past age 60;

(11) Requires a deduction from a member's salary of 7% to be contributed into the member's account for members who have returned to active participation in the system after participation in DROP;

(12) Exempts benefits from the Police Relief Association from Missouri income taxes; and

(13) Changes several sections to clarify a retired member as a member who has terminated employment and retired in relation to participation to DROP.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Police Retirement System of Saint Louis
City of Saint Louis

Jeanne Jarrett, CPA
Director
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MF:LR:OD (12/00)